

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
-vs-)	
Central Illinois Light Company d/b/a)	
AmerenCILCO; Central Illinois Public)	Docket No. 07-0165
Service Company d/b/a AmerenCIPS;)	
Illinois Power Company d/b/a AmerenIP)	
Investigation pursuant to Section 9-250)	
of the Public Utilities Act of Electric)	
Rate Design)	

REPLY BRIEF OF THE
STAFF OF THE ILLINOIS COMMERCE COMMISSION

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July 10, 2007

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Staff of the Illinois Commerce Commission (“Staff”), by and through its counsel, pursuant to Section 200.800 of the Rules of Practice (83 Ill. Adm. Code 200.800) of the Illinois Commerce Commission’s (“Commission”), respectfully submits its Reply Brief in the above-captioned matter.

I. INTRODUCTION

The Initial Brief of the Staff of the Illinois Commerce Commission (“Staff’s Initial Brief” or “Staff IB”) was filed on June 29, 2007. The initial briefs of the Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP (collectively, “Ameren” or the “Ameren Companies” or the “Ameren Illinois Utilities”); the Illinois Industrial Energy Consumers (“IIEC”);The Grain and Feed Association of Illinois (“GFA”); Constellation

NewEnergy, Inc (“CNE”) and the Citizens Utility Board (“CUB”) were also filed on June 29, 2007.

Some of the issues raised in the parties’ initial briefs were addressed in Staff’s Initial Brief and, in the interest of efficiency, Staff has not raised or repeated every argument or response previously made in Staff’s Initial Brief. Thus, the omission of a response to an argument that Staff previously addressed simply means that Staff stands on the position taken in Staff’s Initial Brief because further or additional comment is neither needed nor warranted.

Staff agrees with the Ameren Companies’ assertion in their initial brief that the parties to this proceeding have effectively collaborated to develop a reasonable set of rates for retail customers. The proposed rates for retail customers presented by both the Ameren Companies and Staff correct the more egregious bill impacts problems associated with current rates for Ameren customers and should be approved by the Commission in this proceeding.

Nevertheless, some proposals presented by the Ameren Companies, IIEC and Constellation New Energy in their initial briefs present problems and undermine the progress towards a more reasonable and balanced set of electricity rates. These proposals are discussed in more detail below and should be rejected by the Commission.

II. ARGUMENT

A. Reply to Ameren

The Ameren Companies begin their discussion with an argument stressing the importance of having any proposals approved in this proceeding adhere to the

objective of maintaining revenue neutrality. Since this was a precondition for the proceeding as set forth in the Commission's Initiating Order for this docket (Initiating Order, p. 3), there is no need to argue an issue that has already been decided. Furthermore, it should be noted that the only party that has presented a proposal that calls into question this revenue neutrality standard is Ameren. That proposal was Mr. Cooper's proposal to create a regulatory asset to cover an anticipated shortfall in the delivery service revenue requirement associated with an October 1st implementation date for the proposed rate design changes. (Ameren Ex. 1.0, pp. 9-10)

The Ameren Companies continue in their brief to present an explanation of how they developed their proposed rates for retail customers. The discussion describes in detail how revenues, supply charges and delivery service rates were revised for the BGS-1/DS-1 and BGS-2/DS-2 classes. In addition, the Ameren Companies discuss the proposed delivery service changes for larger DS-3 and DS-4 customers. (Ameren IB, pp. 15-28)

Absent from the Ameren Companies' initial brief is any mention of either the specific rates the Ameren Companies are proposing in this docket or the fact that Staff and the Companies agree on each of these rate revisions. Nevertheless, it is Staff's understanding from the testimony that the Ameren Companies and Staff agree on rate redesign. As noted in Staff's Initial Brief, Ameren witness Jones acknowledges the agreement on residential rates in the following terms:

Mr. Lazare supports the approach to residential rate design as provided in the response to Staff data request PL-1.01, and attached as Schedule 1.03 to Staff Exhibit 1.0. The approach and results are the same as what I provided in my direct testimony at pages 12-17, and in Ameren Illinois Utilities' Exhibits 2.2 through 2.4. Thus, I believe that Staff and the Ameren

Illinois Utilities are in agreement on how to best approach residential rate design.

(Ameren Exhibit 3.0, pp. 1-2)

The Ameren Companies initial brief also does not comment on whether Ameren and Staff are in agreement on BGS-2/DS-2 rates. Nevertheless, the available evidence indicates that they do agree. For one, the Ameren Companies' initial brief documents the same proposed revisions to delivery service rates for BGS-2/DS-2 customers as proposed by Staff. (Ameren IB, p. 19) These changes feature a 0.75 cents per-kWh increase in summer rates and a corresponding decrease of approximately 0.4 cents per-kWh in winter rates.

Second, Attachment A which is included with this brief shows that the Ameren Companies and Staff agree on BGS-2 supply charges. Ameren witness Jones indicates that his updated prices for BGS-2/DS-2 supply charges are presented in Ameren Illinois Utilities' Ex. 3.01. (Ameren Ex. 3.0, p. 4 lines 80-82) That exhibit presents the Ameren Companies' proposed adjustments to current BGS-2/DS-2 rates. Attachment A begins with current supply charges and then applies the adjustments presented in Ameren Illinois Utilities' Ex. 3.01. The attachment presents the resulting rates alongside Staff's proposed BGS-2 supply charges and finds that they are equivalent.

The Ameren Companies initial brief also discusses the proposed rate limiter for DS-3 and DS-4 rates and indicates that they have entered into a Memorandum of Understanding ("MOU") on the proposal. (Ameren IB, pp. 24-28) Staff has indicated its support for the MOU in both testimony and its initial brief.

Thus, while not addressed in the Ameren Companies' initial brief, the evidence demonstrates that Ameren and Staff are in agreement on the redesign of BGS-1/DS-1, BGS-2/DS-2 and DS-3 and DS-4 rates for this docket.

Despite these areas of agreement, Staff and the Ameren Companies do disagree on two matters. The first issue concerns the implementation date for the rate design changes adopted in this proceeding. The Ameren Companies state in their initial brief that the rate changes made in this docket should not be implemented until January 2008. (Ameren IB, p. 8) They argue that beginning in January 2008 would ensure revenue neutrality for the rate changes and also "provide the added benefit of developing an entire year of data related to the operation and customer impacts caused by the new rates." (Ameren IB, p. 8)

The Ameren Companies then proceed to criticize the Staff proposal to implement rate changes on October 1, 2007, stating that it will cause the Ameren Companies to under-recover \$16.5 million in BGS costs. (Ameren IB, p. 30) The Ameren Companies also indicate that the Ameren Companies are currently negotiating with state legislators and other parties on rate relief plans that will address in particular "large winter use residential customers". They state that [i]mplementing rate design changes on top of a special negotiated program could result in rates and bills below those paid by customers in 2006". (Ameren IB, pp. 31-32)

None of these arguments is reasonable. For one, it is not necessary for the Commission to develop "an entire year of data" on current rates to conclude that they are severely flawed and need to be replaced. The extent of the problems became eminently clear in the first few months of this year when electric space heating

customers received extraordinary bill increases. The one essential task is for the Commission to take all necessary steps today to prevent Ameren customers from experiencing these kinds of bill impacts again.

As for the Ameren Companies' references to negotiations with state legislators and other parties, that does not constitute a sufficient basis to govern the Commission's decisions in this docket. There is no evidence in this record to indicate what ratemaking changes are contained in the proposals being negotiated. As such, there is no evidentiary basis to consider Ameren's assertions in this regard.

The only way the Commission can ensure to its satisfaction that the upheaval experienced earlier this year will not be repeated later this year is by making the rate changes effective October 1st of this year. Any other implementation date would run an unnecessary risk for ratepayers and the Commission of inordinate bill impacts.

The Ameren Companies state that if Staff's proposal for an October 1st implementation date is accepted, it must be accompanied by "an adequate means to address the impact on the over-/under-recovery mechanism within Rider MV". (Ameren IB, p. 32)

Staff does not understand the Ameren Companies' complaint. If there is a potential shortfall, they have the means to address it through their Rider MV filings. The Commission for its part must focus not on Rider MV but on redesigning rates to address the disparity in bill impacts arising from current rates.

The Ameren Companies also respond to the Staff proposal to discard the rate prism in the next auction in favor of an across-the-board, equal percentage increase or decrease in supply charges for all classes in the MV auction. The Ameren Companies

find the Staff proposal reasonable for BGS-1 and BGS-2 customers (Ameren IB, p. 33). However, they object to extending the proposal to BGS-3 and BGS-5 customers. They argue instead that supply charges for these customers should be based on the current rate prism approach. (Ameren IB, p. 33). They argue that supply charge changes are not being contemplated in this case. Furthermore, they contend that BGS-3 prices can influence customer decisions whether to take bundled or unbundled service and the most efficient approach under the circumstances is to employ more market-based prices developed through the prism. Finally, they argue that their proposal should not have a significant relationship on the overall annual relationship between BGS-1, BGS-2 and BGS-3 prices. (Ameren IB, pp. 33-34)

The problem with the Ameren Companies' counter-proposal is that it adds an unnecessary element of uncertainty to the next phase of the rate design process. The fact remains that future changes in supply charges for BGS-1 and BGS-2 relative to BGS-3 and BGS-5 are not known now and will only be revealed after this proceeding is over. If the Ameren Companies' proposal were to produce any significant bill impacts for an individual rate class such as BGS-3 or BGS-5 there will be no recourse before those rates take effect. The wisest approach at this point is to adopt a cautious and safe strategy that protects against a recurrence of inordinate bill impacts for any customer group. That is why the Commission should adopt the simple, straightforward and transparent approach of across-the-board changes to current supply charges to generate the necessary revenues resulting from the next application of the auction.

B. Reply to CNE

CNE expresses its opposition to Staff's proposal to abandon the prism for the 2008 auction. CNE states it "is not unsympathetic to the motivations upon which Staff predicates their across-the-board application". (CNE IB, p. 10) Nevertheless, CNE claims to have demonstrated that Staff's proposal undermines competition and conflicts with the historical method of ratemaking in Illinois. CNE argues that suppliers based their bids for service to bundled customers on continued application of the prism and it would be unfair to alter those terms after they have begun to serve customers. (*Id.*, p. 11)

CNE's concerns about competition are flawed in two respects. First, the concern about the adverse impact for competition fails to consider the larger issue which is the extraordinary impact of current rates on Ameren ratepayers, particularly space heating customers. The concern expressed by Ameren's customers has been unprecedented and the need to address those concerns is critical. If the solution impacts suppliers, that is a necessary side-effect to solving the problem.

In addition, CNE has failed to demonstrate how competitors or energy-efficiency will be adversely affected by adoption of the Staff proposal. They claim that suppliers are basing their plans on the results of the rate prism, but how the prism will work in the 2008 auction and what supply charges will result for customers is unknown today. Thus, it cannot be said what the impact will be on suppliers, competitors or conservation from the application of the rate prism in next years auction. If the first auction is any guide, the full effects of the rate prism may not be understood until after the auction is conducted.

In addition, the Commission by initiating this proceeding is signaling its intention to revise the prism results in the immediate future. The Commission has clearly decided that addressing unreasonable bill impacts for ratepayers takes precedence over not clearly articulated supplier concerns about changes to the prism. The Staff proposal would only serve to extend the changes adopted by the Commission in this proceeding through the next supply auction. CNE has failed to demonstrate that this reasonable proposal to address a significant bill impacts problem would disadvantage suppliers in any way. Thus, CNE's criticism should be rejected and the Staff proposal for across-the-board changes in supply charges resulting from the next auction should be adopted.

C. Reply to IIEC

IIEC for its part expresses opposition to the rate limiter proposal. In its brief IIEC cites to its witness Stephen's testimony that "the Commission has generally avoided the introduction of cross-subsidies in delivery service rates". (IIEC IB, p. 3) IIEC agrees that there are times when a departure from cost-based rates is warranted, but argues that this should be the exception, not the rule. (*Id.*, p. 5)

IIEC goes on to argue that now is not the time to deviate from cost-based rates. IIEC argues that the GFA proposal seeks to use delivery services as a medium for addressing supply costs concerns. IIEC goes on to argue that grain dryers have failed to establish that their delivery service costs have increased more than other non-residential customers. Furthermore, IIEC contends that the record in this case fails to

contain evidence of supply costs and therefore the adverse impact of the proposed rate limiter on other DS-3 and DS-4 customers cannot be evaluated. (*Id.*, pp. 6-7)

The objections by IIEC lack merit. The fact remains that intermittent users such as grain dryers are in a unique position in the transition to post-2006 rates because their relatively large demands and intermittent loads produce high delivery costs on a per-kWh basis. The problem arose for these intermittent users because their usage levels are low while their peak demands are high. Thus, the introduction of distribution demand charges significantly increased their overall bills. For example, more than 80% of the 155 AmerenIP customers on separate grain drying rates in 2006 have received increases in excess of 50% based on current bundled service prices. (Ameren Ex. 2.1, p. 30 of 49) (ICC Staff Ex. 2.0, pp. 9-10)

Other customers with more balanced usage throughout the year do not face the same problem. The rate limiter is design to address this specific problem.

In addition, the potential impact of the proposed rate limiter is small, especially for larger DS-4 customers. According to Ameren witness Jones, the rate limiter would entail a delivery services revenue shift of \$1.4 million for DS-3 customers and a much smaller shift of \$166 thousand for DS-4 customers. (Ameren Ex. 2.0, p. 23) Thus, the impact for IIEC customers in the DS-4 class would be minimal. For these reasons the IIEC's arguments should be rejected.

III. CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this docket.

Respectfully submitted,

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